

TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: Real Estate - Real Estate Consultant - RFP

ITEM NUMBER: 7

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: December 4, 2002

INFORMATION: _____

PRESENTER(S): Mike DiRé and Hank Thomas

Executive Summary

The present contract of CalSTRS' real estate consultant, Pension Consulting Alliance Inc., expires April 30, 2003. The real estate staff will administer a Request for Proposal (RFP) to seek out qualified candidates to provide consulting and reporting services to the system. In order to minimize conflicts of interest and maximize responses, staff has broken the prior duties into two primary areas: 1) Real Estate Consulting and Strategy; and 2) Performance Reporting. The Investment Committee should note that Independent Fiduciary assignments on specific investment opportunities fall outside the real estate consultant role.

Background

Staff has reviewed the existing real estate consulting contract and has suggested below a scope of services that considers the policy and market changes that affect CalSTRS' investments in real estate. We have provided a basic listing of services divided between the "Consultant" role and the "Performance Reporting" role. We will allow respondents to bid on one or both roles but will note CalSTRS is hesitant to use the "Consultant" for independent fiduciary assignments that cause a potential conflict of interest issue.

The role of the consultant is to provide the Investment Committee with advice and recommendations on the CalSTRS real estate policies, portfolio, and strategy. Under the reporting structure, the Consultant works FOR the Committee and works WITH the staff. In order to provide a clear separation of duties, the Committee's consultant cannot also serve as an independent fiduciary on a particular transaction. In the 1997 real estate consultant RFP these roles were also separated; however, due to small number of independent fiduciaries, the Committee allowed staff to use the current consultant in both roles. In the past two years, staff has expanded the number of independent fiduciaries to 12, so the original separation of duties can be restored. The division of duties should allow the Committee's consultant to be objective and independent in their evaluation of the portfolio and the relative results of any investment decision.

Services Provided - Real Estate Consultant

- 1) Attend Investment Committee and/or Board meetings as requested.
- 2) Assist in the development of real estate investment policies, investment objectives, investment guidelines, and procedures, and provide written recommendation to the Investment Committee on such.
- 3) Research real estate market trends and capital market trends.
- 4) Identify, analyze, and report on new investment trends.
- 5) Review investment proposals and transactions to assure compliance with CalSTRS Investment Guidelines as defined in the Real Estate Policy. A compliance letter will be delivered in a written format in a timely manner.
- 6) Review of real estate advisors/managers, including:
 - Compliance with CalSTRS' Real Estate Policy
 - Compliance with contract and investment guidelines
 - Organizational changes
 - Structure/Ownership changes
 - Financial/Legal issues
- 7) Assist in the development of RFP's or RFI's for investment management service, including the evaluation and selection of the applicants.
- 8) Upon request, will assist staff in the annual review of the overall real estate portfolio, investment strategy, risk levels, performance, and market trends.
- 9) Any other activities as may be required that are consistent with and contemplated by the foregoing, for example:
 - Market research on a specialized sector
 - Research on a new investment structure
 - Fee analysis
 - Review of advisor/manager contracts
 - Attendance at meetings with advisors/managers
- 10) Present the results of the semi-annual performance reports to the Investment Committee, or as requested by staff.

Services Provided – Performance Reporting

- 1) Provide quarterly performance reports on all investments in the CalSTRS real estate portfolio in a format determined by staff, including the calculation of time-weighted returns and internal rates of returns as specified by staff. *
 - A. Provide quarterly comparisons of the CalSTRS real portfolio performance to comparable and relevant benchmarks, either standardized or customized as specified by staff.
 - B. Provide quarterly highlights of investment activity for the CalSTRS real estate managers or investment programs.
 - C. Provide quarterly highlights of the overall real estate market condition.

**This may be provided by the consultant or a separate firm.*

Timeline

Staff will work with the Contracts and Legal divisions to administer the RFP with the rough timeline as shown below:

December:	Presentation of Scope of Services to Investment Committee and approval of RFP process. Advertise and mail RFP to consultants and reporting candidates.
February:	RFP responses due to CalSTRS.
March:	Evaluation of RFP responses by staff.
April:	Interviews of finalists by Investment Committee and selection of consultant.

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Date prepared: November 19, 2002

By:

Hank Thomas
Investment Officer II

Approved by:

Mike DiRe
Director - Real Estate

Review & Concur:

Christopher J. Ailman
Chief Investment Officer

